



CHAI·NA·TA
C O R P.

ANNUAL REPORT 1996



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CORPORATE PROFILE

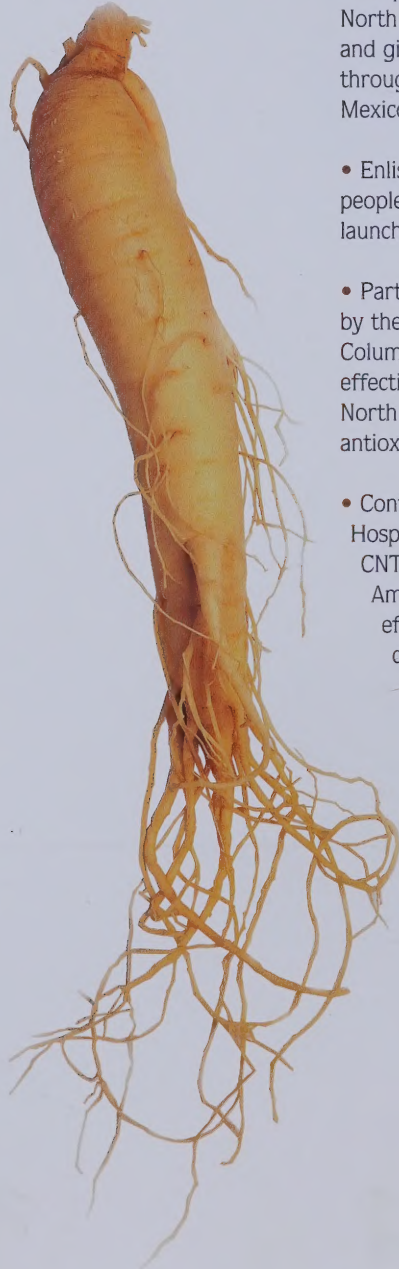
Chai-Na-Ta is the largest producer of North American ginseng in the world. Since its inception in 1981, the company has grown from a successful farm operation into a vertically integrated organization that produces, markets and distributes North American ginseng root and value-added products. With operations based in Canada, the United States, Barbados, Hong Kong, China and Mexico, the company's international scope has established it as a leader in the global ginseng industry.

Attaining profitability every year since its first harvest in 1986, Chai-Na-Ta is continuing to develop worldwide markets for its products, forge strategic alliances and initiate scientific research into the therapeutic values of North

American ginseng. As the only "farm to consumer" ginseng company, Chai-Na-Ta's product authenticity is highly valued, in an industry where product integrity is a key issue.

Ginseng is a root crop that is regarded by many as the "elixir of life". Used for thousands of years, ginseng is considered the cornerstone of Chinese traditional herbal medicine, and is believed to possess a wide variety of therapeutic properties. With the growing trend toward natural products and alternative health care practices, along with people adopting a healthier lifestyle, ginseng-based products are becoming increasingly popular in North America and around the world.

CORPORATE HIGHLIGHTS



- Developed new packaging and launched our products into the Shanghai, China market.
- Registered and received approval from the Mexican government to import and sell Chai-Na-Ta's North American ginseng tablets and ginseng multi-vitamins through its branch office in Mexico City, Mexico.
- Enlisted well known spokes-people for the new product launches in China and Mexico.
- Participating in a two year study by the University of British Columbia (U.B.C.) on the effectiveness of the company's North American ginseng as an antioxidant agent.
- Contributed to Beth Israel Hospital's research on Chai-Na-Ta's CNT 2000 standardized North American ginseng extract for its effect on inhibiting breast cancer. This facility is a teaching hospital of Harvard Medical School.
- Harvested 308 acres of North American ginseng. This represents an increase of 55% over last year's harvest, and is a record for the company and the industry.
- Seeded 368 acres on farm sites located in British Columbia and Ontario, reflecting a 64% increase over 1995 seeding. A record 1,470 acres of North American ginseng are currently under cultivation.

FINANCIAL HIGHLIGHTS

- Reported record financial results of CDN \$34.4 million in consolidated revenues, net income of CDN \$6.2 million and earnings per share of CDN \$1.60 (CDN \$1.32 fully diluted).
- Secured a CDN \$20 million financing with John Hancock Mutual Life Insurance Company.
- Acquired an additional 40% of Unique Formulations, Inc.

	1996	1995	INCREASE
	\$	\$	%

FINANCIAL RESULTS

Stated in Thousands of Canadian Dollars

Revenues	34,430	25,878	33
Pretax earnings	9,282	8,241	13
Net earnings	6,222	5,141	21
Cash generated from (applied to) operations	(3,015)	10,693	n/a

FINANCIAL POSITION

Stated in Thousands of Canadian Dollars

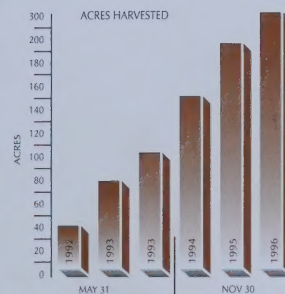
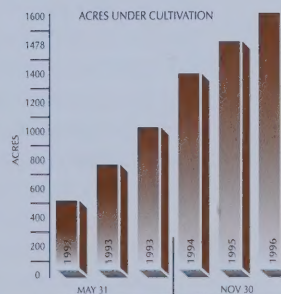
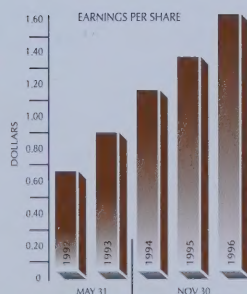
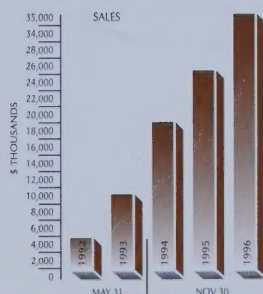
Working capital	40,316	8,643	366
Shareholders' equity	38,307	29,370	30
Total assets	85,054	69,966	22

PER SHARE AMOUNTS

Stated In Canadian Dollars

*Earnings per share - basic	1.60	1.38	16
*Earnings per share - fully diluted	1.32	1.15	15
*Cash generated from (applied to) operations	(0.77)	2.93	n/a
*Book value per share	9.76	8.12	20

* All per share amounts reflect the 4 to 1 consolidation of our shares



LETTER TO OUR SHAREHOLDERS

During fiscal 1996, we continued developing our vertical integration program, which is a key element of our long term growth strategy.

Due to the record harvest from our farms, combined with our marketing efforts, Chai-Na-Ta again achieved record financial results. Consolidated revenue of CDN \$34.4 million and net income of CDN \$6.2 million were 33% and 21% higher respectively than our previous fiscal year. Earnings per share of CDN \$1.60 (CDN \$1.32 fully diluted) exceeded our forecast, and increased 16% over fiscal 1995.

OUR MARKETING PROGRAMS

The company's marketing efforts are critical to the ongoing success of our value-added program. We concentrated on implementing and re-evaluating our current marketing plan, rather than expanding operations into other countries.

China

With marketing strategies being executed by Chai-Na-Ta (Asia) Ltd. (CNTA), we developed new packaging for our products, enlisted a well known celebrity in China to be our spokesperson and developed a comprehensive advertising program for our Wuxi operation. We launched our products in Shanghai in September 1996, and obtained excellent results demonstrated by Wuxi achieving substantial growth in value-added product sales.

The Dalian manufacturing facility will commence operations in 1997. The factory is now fully licensed as a pharmaceutical facility. The parties involved in this joint venture are seeking additional financing which is expected to result in further dilution of our ownership position. The company will, however, retain a preferred supplier relationship with Dalian.

North America

While we enjoyed some success through private label sales of Unique Formulations' products, we believe our North American program needs to be modified so that our branded products attain a higher and more benefit-oriented profile in the minds of consumers. To accomplish this, we are creating an aggressive marketing campaign and will be looking into recruiting sales and marketing personnel to assist the company in achieving its corporate goals.

Mexico

After going through a rigorous medical registration process, we are now manufacturing and distributing ginseng tablets and ginseng multi-vitamins in Mexico. Production in Mexico offers substantial cost and tariff advantages. Our Mexican operation began distribution in November 1996 and was profitable in its first month of operation.

PRODUCT INTEGRITY - OUR GREATEST STRENGTH

The authenticity of our products will continue to be acknowledged by consumers. By being vertically integrated, we are the only company able to provide "farm to consumer" products. The current scientific research studies we have



initiated will also enhance the level of consumer confidence relating to product efficacy, as well as support the nutritional and therapeutic values of North American ginseng. We feel our product integrity is our strength in the marketplace and that it will be well received by consumers.

FINANCES

In June, we completed a CDN \$20 million financing with John Hancock Mutual Life Insurance Co. Ltd. This financing enabled us to commit further resources to our value-added programs and permitted us to achieve our farm production goals. We are delighted that a major and respected institution like John Hancock Mutual Life supports our vision and corporate objectives.

STOCK CONSOLIDATION - SHAREHOLDER VALUE

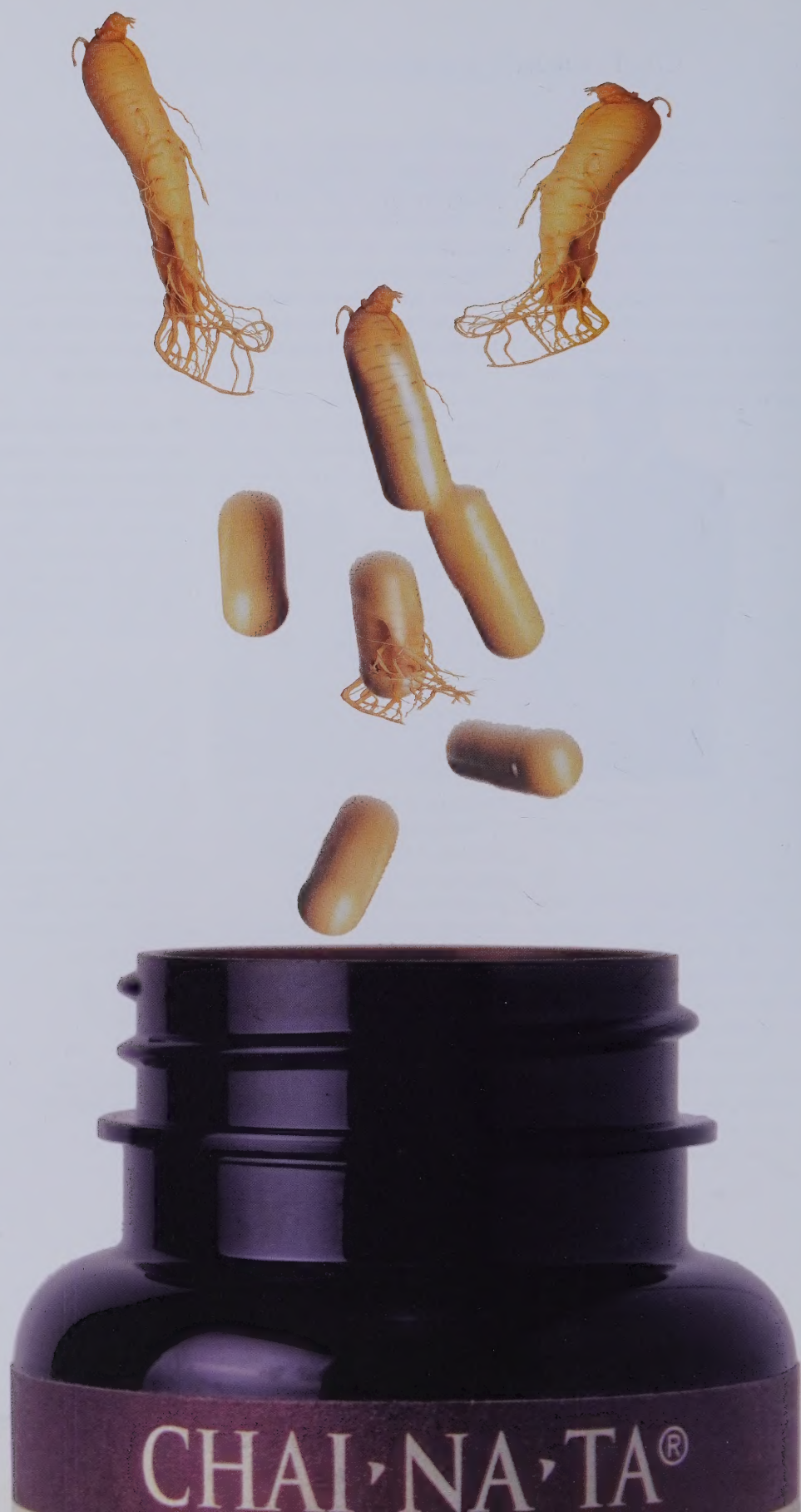
The Board of Directors consolidated the company's stock so that the share price would qualify for investment by more institutional investors. This will enable the company's shares to appeal to a broader financial market.

To increase shareholders' value and share price, management devoted a tremendous amount of time and effort in the investment community. As a direct result, seven analysts are now reporting on the company. All of these reports are equally optimistic about the value of our company's shares.

OUR THANKS

We would like to take this opportunity to thank all of our customers, suppliers, advisors, strategic partners, the Board of Directors and shareholders for their support and contributions to the success of our company. Most of all we would like to thank our employees, who have pulled together once again to deliver record results.

G.A. (Gerry) Gill
President and CEO



OUTLOOK

Our goal is to be a global leader in the development and marketing of high quality North American ginseng products.

We continue to work toward total vertical integration, and in 1997 we will remain focused in our efforts to expand the value-added product side of our business. We plan to become a major force worldwide in the food, drug and nutraceutical industries, by developing and marketing additional related herbal health products.

CAPITALIZING FROM A CHANGING GINSENG MARKET

A significant change took place in the ginseng industry this year. For the first time, many North American ginseng growers encountered difficulty in selling their crop immediately after their harvest in 1996. This resulted from an alteration in the buying pattern in the traditional Hong Kong distribution system. These brokers have traditionally purchased most of the growers' production within a few months of completion of harvest. This year, brokers extended their buying period, which left growers holding their inventories for a long period. Many growers in North America felt the impact of this decision and sold at low prices.

Chai-Na-Ta was able to avoid this situation. Our vertical integration program enabled us to successfully market our crop through our own brokerage operations in a timely manner.

The traditional distribution system in Hong Kong has created a tremendous gap between the farmers, wholesalers and the retail market. The goal of our vertical integration strategy is to bridge this gap, and has made us more conscious of the need to pursue our goals more aggressively. The infusion

of capital that we received allows us to expand our programs in China, North America and Mexico. Now is the time to move strongly in the marketplace. This strategy will provide more growth in the value-added programs, will increase consumption and contribute to our revenue and income growth. Since this is a dynamic time in our industry, the opportunities for potential acquisitions and/or mergers may also play a role in our growth opportunities. If the right opportunity presents itself, we will move quickly to assess its viability.

Our plan to supply private label distributors and re-manufacturers will provide us with additional new markets for our value-added products.

We believe 1997 will be a year of change and exciting growth for Chai-Na-Ta. As we continue on our mission to be a vertically integrated, world leader in herbal health products, we will continue to maximize shareholder value through growth, profitability and integrity.

WHY CHAI-NA-TA OPERATES INTERNATIONALLY

Chai-Na-Ta has established a presence in China, Hong Kong, Barbados, Canada, the United States and Mexico for several reasons.

First, through an international base of operations, Chai-Na-Ta is able to more effectively penetrate world markets. Secondly, the company's international exposure diversifies our risk. And third, direct involvement in local markets gives us more effective control over our operations.

Each country we operate in has its own rules and regulations governing natural health food supplements. Canada and the United States classify ginseng as a food product, therefore formal government registration is not required. In most other countries, ginseng is classified as either a medicinal or pharmaceutical

product. The guidelines for each of these categories are strict, and it takes significant time and effort to register our products for sale in these countries.

Due to the potential of these markets, it is important to obtain approval for our value-added products in order to continue achieving rapid sales growth.

We must invest the time required to build a strong foundation in these foreign markets. To foster our working relationships, we employ highly qualified professionals in each local market to head our foreign offices. These members of our team have the knowledge and experience in their local market to accomplish our corporate goals.

As we continue to grow, we will expand into other foreign markets. Through our international locations we are positioning ourselves to capitalize from these opportunities.



CHAI-NA-TA'S CORPORATE STRENGTHS

- As the largest producer of North American ginseng in the world, Chai-Na-Ta is a leader in a growing niche market.
- The company controls the supply of its primary raw material - North American ginseng.
- Chai-Na-Ta is the industry's lowest cost grower.
- Vertical integration ensures product integrity from the farm level through to value-added consumer products.
- Producing and distributing value-added products increases the consumption for the ginseng grown on our farms, diversifies the company's revenue base and enhances profitability.
- An established brokerage operation in Hong Kong provides the company with an effective outlet for its bulk and graded root.
- The company is globally diversified with operations in China, Hong Kong, North America, Barbados and Mexico.
- The company has strategically positioned itself in world markets where demand for North American ginseng and ginseng-based products continues to grow.
- The company has ongoing research and development projects to develop new products.
- The company operates in an industry where major barriers to entry exist.
- We have a successful track record in the industry. Sales have increased an annual average of 50% over the past five years, with strong margins.



QUESTIONS & ANSWERS

Q. Why did the company consolidate its stock?

A. We consolidated our stock after consulting with our U.S. financial advisor. The primary reason was to bring our stock to a price level which would qualify it to be purchased by more U.S. based institutional investors and clients of major U.S. retail brokerage firms. Over the long run, this is expected to increase trading volumes.

Q. Why are selling, general & administrative costs so high?

A. Consolidated selling, general & administrative expenses reflect the costs incurred to operate all divisions in the Chai-Na-Ta group. However, as the company is vertically integrated, consolidated revenues do not include transactions between related divisions. As a result, revenues appear lower, and expenses as a percentage of consolidated revenues appear higher than if similar, but unrelated business were aggregated and compared to Chai-Na-Ta. The Chai-Na-Ta group's combined revenues in 1996 totaled \$63.7M. Expenses as a percentage of combined revenues totaled only 9.4%, a relatively low ratio.

Q. Will the changeover of Hong Kong from British to Chinese rule affect the company's operations there?

A. We anticipate the change of control in Hong Kong will be a non-event for the business community. After July 1, 1997, Hong Kong will continue to operate as a Special Administrative Region (SAR), and will have its own laws, regulations and tariffs, however, the company has relatively small financial commitments in Hong Kong and operations could easily be relocated if necessary.

Q. Is there a glut of ginseng on the market?

A. The demand for ginseng continues to grow. An article in the December 9, 1996 edition of the People's Daily newspaper in China reported that it expects China will face a huge shortage of ginseng in the next four to five years, due in part to South Korea cutting back on its production. The article reported that demand will exceed supply (based on actual acres under cultivation). The shortage is expected to be in the range of 1,000 to 2,000 metric tonnes (2.2 - 4.4 million pounds) per year. As ginseng's popularity continues to increase in other markets such as South East Asia, Europe, the Middle East, North

America, Mexico and South America, we believe that demand will continue to exceed supply.

Q. What type of research and development projects has the company been involved with?

A. We are involved in several R&D projects.

A project to study our CNT 2000 standardized North American ginseng extract began during 1996 at the University of British Columbia. It is a two year program studying the effects of CNT 2000 for its anti-oxidant activity.

Beth Israel Hospital, a teaching hospital of Harvard Medical School is also conducting research with our CNT 2000 extract. At Beth Israel, scientists are researching the effect of CNT 2000 for the prevention of, and treatment for, breast cancer. The first phase of the study is expected to be finished during 1997 with ongoing research.

At the University of Toronto, doctors are studying the effects of North American ginseng in the prevention and treatment of cardiovascular disease and diabetes in humans.

Q. What is happening with the Dalian project?

A. The factory in Dalian, China is fully licensed and ready to commence pharmaceutical production in 1997. Our partners are in negotiations to secure working capital financing for start-up. As new investors are brought in for this purpose, Chai-Na-Ta's ownership position will be diluted as we are not participating in further funding. We will, however, benefit from a preferred supplier relationship to the project.

Q. Why is the company enjoying more success marketing its value-added products in regions other than North America?

A. People in many other countries are more familiar with the benefits of North American ginseng than people in Canada and the United States. As a result, market acceptance has been higher in these countries. To increase awareness of our ginseng-based value-added products in North America, we will be initiating an educational program. We believe our on going research projects will support this initiative.



MARKETING STRATEGY

Our marketing strategy for ginseng-based value-added products centers around three fundamental points.

1. Unique & Compelling Product Benefit - The most important part of any marketing strategy is product positioning. Our goal is to identify and communicate the unique benefit of our North American ginseng in a compelling manner.

2. Product Integrity - We will focus on our ability to offer consumers unprecedented product integrity. As the only company able to offer "farm to consumer" products we can assure the public they are purchasing authentic pure North American ginseng.

Product integrity is very important as consumers, particularly in Asian markets, are concerned about product contamination and misrepresentation. Through our product guarantee in China, seal of quality and advertising program we expect to further increase consumer confidence and loyalty in our products.

3. Research & Product Development - Results of the research programs we are involved with will be communicated on a regular basis to the public and to the health food industry. It is critical to reinforce the benefits offered by North American ginseng with scientific facts and proof. This is particularly important for the North American market, as many consumers are concerned about scientific efficacy before using natural supplements. Using the results of our research programs, our advertising campaigns in North America will center around the unique and compelling benefits of North American ginseng which can be factually supported. People in many foreign markets are familiar with the benefits of ginseng, as it has been used as part of their traditional herbal medicine for thousands of years.

In conjunction with research, we will also continue introducing new product formulations into the marketplace. This will enable us to maintain a leadership position in the industry and provide us with a significant competitive advantage.



FINANCIAL RESULTS

The financial results of the group are analyzed on a functional and regional basis. Regionally, the company operates in North America and Southeast Asia. From a functional viewpoint, the company conducts farming, processing, sales and distribution activities. The following analysis

reflects the contribution of each of these subgroups to the overall consolidated results of the company. Combined subgroup revenues will not equal reported consolidated revenues since sales between affiliates are eliminated for financial statement purposes.

SOUTHEAST ASIA

The Southeast Asian operations reflect the consolidated results of Chai-Na-Ta (Asia) Ltd., Wuxi Zhong Jia American Ginseng Natural Tonics Co. Ltd. and North American Ginseng Enterprises Limited.

(Stated in Canadian Dollars)

SOUTHEAST ASIA VALUE-ADDED, PROCESSING & DISTRIBUTION

	YEAR ENDED NOVEMBER 30, 1996 \$	YEAR ENDED NOVEMBER 30, 1995 \$
Revenues	31,828,315	23,484,944
Net earnings	1,889,172	1,776,655
Total assets	31,119,487	27,058,407
Gross margin	14.04%	14.63%

NORTH AMERICA

North American results reflect the financial performance of Chai-Na-Ta Corp. (including the Mexico branch office), Chai-Na-Ta Farms Ltd. and Unique Formulations, Inc.

(Stated in Canadian Dollars)

NORTH AMERICA VALUE-ADDED

	YEAR ENDED NOVEMBER 30, 1996 \$	YEAR ENDED NOVEMBER 30, 1995 \$
Revenues	2,671,624	496,071
Net earnings	(271,536)	(147,416)
Total assets	2,014,345	346,061
Gross margin	25.81%	28.67%

(Stated in Canadian Dollars)

NORTH AMERICA FARMS

	YEAR ENDED NOVEMBER 30, 1996 \$	YEAR ENDED NOVEMBER 30, 1995 \$
Revenues	20,851,177	15,307,376
Net earnings	3,393,078	3,511,671
Total assets	70,373,577	42,561,424
Gross margin	46.00%	57.65%



Our operations in Ontario and British Columbia again produced the variety of size and shape in ginseng root to give buyers a complete selection.

OPERATING RESULTS

We harvested a record 308 acres of North American ginseng, producing approximately 665,000 pounds of root. The size of our harvest was unprecedented in the North American ginseng industry and represents a 50% increase over last year's output. Our yield of 2150 pounds per acre was slightly lower than last year. In coming years, we expect both our yields and plant population per acre to increase significantly as farming techniques continue to improve.

We seeded a total of 368 acres on our farms in British Columbia and Ontario, which represented a 64% increase from 1995. Our expanded planting was made

possible by 1995 seed yield and the quality of our seed stratification process. In addition, seed prices in the fall were reasonable, enabling Chai-Na-Ta Farms to purchase seed to expand our plantings.

FOLIAGE & ECHINACEA HARVESTS

In 1996, the majority of the echinacea harvested during 1995 was sold, with the exception of a few hundred pounds which was reserved for Unique Formulations. This fall, we planted an additional 5 acres of echinacea at our Cherry Creek site. The 2100 pounds of echinacea harvested from our

farms this year in British Columbia and Ontario will be sold throughout 1997.

FUTURE OUTLOOK

In 1997, we expect to plant in excess of 400 acres in British Columbia and Ontario. The land required for these plantings has been selected and is already being prepared. Our harvest in 1997 is projected to be in excess of 335 acres. Due to the volume of root production, we are increasing our drying capacity.

The cultivation of other herbs continues, and we have completed a preliminary evaluation of golden seal production at our Cherry Creek site. Chai-Na-Ta Farms is working in conjunction with our marketing affiliates to continually improve product quality and find new product opportunities.

The bright red ginseng berries hold our valuable ginseng seed.





By establishing an office in Mexico, we anticipate gaining access to the Latin American market, not only in Mexico, but later on in Central and South America.

Herbal products have been widely used by Latin American cultures for thousands of years, and we expect to capture an important segment of this thriving market.

OPERATING RESULTS

During fiscal 1996, the Mexico operation focused its attention on obtaining medical registration for the manufacture and distribution of our ginseng tablets and ginseng multi-vitamins. Approval for these products was obtained in a record six months, approximately one-third of the time usually required to complete the registration process.

Sales commenced in November of 1996. Our Mexico office attained profitability in its first month of operations.

Chai-Na-Ta Mexico has successfully launched our ginseng products in Mexico.



DISTRIBUTION

Our primary objective is to establish distribution of our ginseng value-added products in Mexico City, as it is the most populous region of the country with approximately twenty million inhabitants. It is the business center of the country as well as being the political focal point. In Mexico City, four main distributors cover almost 70% of the market. The balance is

served by smaller distributors, buying associations and pharmacy chains. In addition, we are seeking representation with other distribution networks in order to broaden our distribution base as much as possible.

MARKETING AND ADVERTISING

In 1996 we enlisted Hector Lechuga, a well known radio and television personality in Mexico, as our spokesperson. Mr. Lechuga's radio program, Mixed Salad, is broadcast every weekday morning during the morning commute period. His show is the top rated radio show with the twenty-five to forty-five year old listening audience. Our products are also promoted and recommended on a daily radio show which discusses women's health issues.

We are advertising our products on city buses as well as several billboards located throughout strategic high traffic areas of Mexico City. Hundreds of thousands of people take public transportation every day in Mexico. Whether one listens to the radio, walks down a major avenue to catch a bus or looks up at a billboard, a person cannot help but notice Chai-Na-Ta's prominent advertising.

FUTURE OUTLOOK

During 1997, we will continue to pursue our distribution objectives in Mexico City. Our goals will be aided by television commercials that will commence early in the new year. Once we are satisfied that the Mexico City market has identified with our products, we will turn our attention to the two other major population centers of Mexico, Monterey and Guadalajara. In addition to expanding our market in Mexico, our office is working on developing different formulas for North American ginseng-based products for sale in Latin America.

Promotional staff at point-of-sales in pharmacies.



Unique Formulations, Inc. allows Chai-Na-Ta to participate in the North American market with value-added products created from the company's own ginseng as well as other high quality, natural and herbal ingredients.

OPERATING RESULTS

During fiscal 1996, sales of Unique Formulations value-added products increased to CDN \$2.2 million from CDN \$1 million the previous year. The majority of this growth came from private labeling.

Obtaining distribution is not enough. A program must be developed to work hand-in-hand with distribution so that consumers develop loyalty to our brand and recognize the benefits of our products. In 1997, a strong, well thought out and aggressive marketing plan will be initiated.

FUTURE OUTLOOK

During fiscal 1997, we will implement a marketing program that is intended to create a strong brand image of our products with consumers. To accomplish this, we will conduct consumer research and product trials to obtain the feedback we need to position our products for long term success in the marketplace. Afterwards, our entire line will be re-assessed, with the idea of developing and introducing new formulations every year. An advertising and educational program will be

created to increase the visibility of our products in addition to providing consumers with more information. We believe these efforts, combined with a powerful benefit-oriented message supported by scientific research, will compel consumers to purchase our brand of North American ginseng and other ginseng-based natural supplements.

This process will take time, and will involve an investment on the part of Chai-Na-Ta. At the same time, we realize that our strategies must be cost effective and yield measurable results. During the first half of fiscal 1997 our program will be developed, and once it is implemented, we are confident that it will enable us to capture an important portion of the natural health supplement business.



An array of products from Unique Formulations.

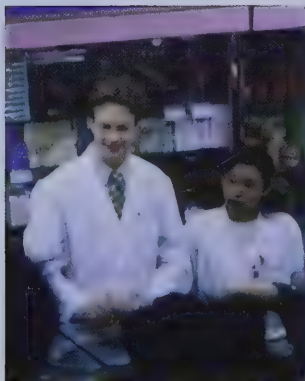


Chai-Na-Ta (Asia) Ltd. (CNTA) has effective ownership in North American Ginseng Enterprises Limited (NAGEL) and NAGEL's joint venture Wuxi Zhong Jia American Ginseng Natural Tonics Co. Ltd. (Wuxi).

Through NAGEL, CNTA brokers Chai-Na-Ta's ginseng root, and the Wuxi facility acts as the primary processor for value-added products. CNTA is responsible for marketing and distributing all of the group's value-added products in Southeast Asia.

OPERATING RESULTS

In 1996, in excess of 900,000 pounds of root were sold through CNTA, generating revenues of CDN \$ 31.8 million. In addition to successfully brokering all of Chai-Na-Ta's ginseng root, CNTA also obtained a preferred supplier agreement with the Dalian Pegasus Ginseng Pharmaceutical Co.



Dashan at our product launch in Shanghai, China.

During the 1996 fiscal year, we processed 88,000 pounds of North American ginseng in our Wuxi facility.

In addition to teas, sliced root and graded root, this facility is also now producing capsules. Our ginseng capsules have been well received in the marketplace. We are now negotiating with several companies who are interested in some of our value-added products for private labeling in Taiwan and Malaysia.

MARKETING ACTIVITIES

This year, we focused our efforts on developing and implementing an advertising program for our Wuxi facility. We created new packaging for our value-added products, initiated television, radio and newspaper advertising, and produced posters and flyers. We also engaged a Canadian, who is a popular comedian in China as our spokesperson, Mark Rowsell known in China as Dashan or "Big Mountain".

Our product launch in Shanghai, China this September was successful. In addition to members of the press, hundreds of people crowded into our facility. With Dashan in attendance, the public lined up and waited for hours for autographs and the opportunity to purchase our products. By being associated with such a well known personality, CNTA has raised the profile of Chai-Na-Ta's value-added products significantly in the large and lucrative Shanghai market. The effect of our product launch was reflected in a sharp increase in value-added product sales. Our sales rose 80% over the previous fiscal year.

DISTRIBUTION ACTIVITIES

The distribution of our value-added products increased in the southern China market, an area which is comprised of over two hundred million people. Our products are being distributed by the largest pharmaceutical companies in the three major districts, which cover almost 85% of the Shanghai consumer market. In addition to

Shanghai, our value-added products are being distributed in major cities in the Jiangsu Province, such as Wuxi and Nanjing, through the provincial pharmaceutical companies.

Discussions are continuing with a variety of potential distributors in Malaysia, Hong Kong, Japan and Korea.

Our marketing efforts have been further strengthened by the fact that Tung Fong Hung Medicine Company Ltd., a shareholder in CNTA, has become a more active strategic partner. In the near future, Tung Fong Hung will own more than forty retail outlets in Hong Kong, Canada and South East Asia. Distribution for Unique Formulations' product line is being established in some of these retail outlets. These products will be sold under a Chai-Na-Ta brand name.

Chai-Na-Ta Asia's new packaging for our value-added ginseng-based products.



FUTURE OUTLOOK

CNTA will extend its ginseng distribution in the traditional graded root market. At the same time, we will develop and introduce non-traditional North American ginseng-based products into the health food market in South East Asia. Our objective is to be the brand leader in each of these market segments.

MANAGEMENT



Gerry A. Gill
President and Chief Executive Officer

Mr. Gill has over 27 years of experience in corporate management and marketing. From 1990 to 1993, he was Vice President of Chai-Na-Ta and in June of 1993, he assumed the role of President. From 1982 to 1990, he was Executive Vice President and Chief Operating Officer of Yamashina International, a Japanese-based firm producing and marketing industrial fasteners.



Bevan D. Jones
Vice President of Farm Operations

Mr. Jones has over 21 years of experience in farm management and marketing. From 1986 to 1989, he was Marketing Manager of Tirol International Marketing, a firm involved in the commodity grain and seed trade.



Joseph S. Crowder
*Vice President of Corporate Development
and Human Resources*

Mr. Crowder has an extensive background in human resources and administrative management in both the private and public sectors. From 1988 to 1992, he served as Vice-Chairman at the Industrial Relations Council of B.C., now known as the Labour Relations Board.



Robert A. Miller
*Vice President of Finance and
Administration, and Treasurer*

Mr. Miller is a Chartered Accountant with 15 years of financial management experience. From 1981 to 1984, he was a public accountant with KPMG, and from 1984 to 1989 he was Controller for Pachena Industries Ltd., a publicly listed technology firm. Until 1994, Mr. Miller was Director of Operations for Field's Welding & Industrial Supplies Ltd., an industrial supply distributor.

BOARD OF DIRECTORS



GERRY A. GILL
President, C.E.O.
Director since 1992
Vancouver, B.C.



JIM B. ABERNETHY
Chairman of the Board
Director since 1984
Vancouver, B.C.



LARRY A. STORY
Director since 1983
Vancouver, B.C.



MURRAY G. BRADOW
Director since 1983
Vancouver, B.C.



OKSANA EXELL
Director since 1996
Vancouver, B.C.



SENATOR JACK AUSTIN
Appointed in June 1996
Vancouver, B.C.



KEN D. BRADLEY
Director since 1995
Vancouver, B.C.



CARL J. PINES
Director since 1995
Vancouver, B.C.



EARL G. DRAKE
Director since 1995
Vancouver, B.C.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

In June 1995, the Toronto Stock Exchange published a requirement that each listed company disclose its approach to corporate governance with reference to guidelines set out in Section 474 of the Toronto Stock Exchange Manual. These guidelines deal with the composition, mandate and objectives of boards of directors and committees of the Board; the desirability of having a majority of individuals who qualify as “unrelated” directors; the decision making process of the Board, the recruitment of new directors; their orientation and education; the independence of directors performance assessments of the Board, its directors and the Chief Executive Officer; and the Board’s expectations of management. In addition to a discussion of the company’s system of governance, each company is required to explain the differences in its system and the guidelines.

Accordingly, the Board of Directors adopted the following Statement of Corporate Governance Practices on March 26, 1996.

(1) The Board recognizes its responsibility for overall stewardship of the company and in particular, for overseeing the management of the business and affairs of the company. In furtherance of this:

(i) the Board expects the Chief Executive Officer and the company’s other officers to manage all aspects of the company’s businesses and affairs to achieve the company’s objectives. However, the Board participates in strategic planning

by considering proposals made by management on material issues and adopting, or recommending changes to, or rejecting such proposals. The Board has initiated the preparation of a formal strategic plan and recognizes that while management has the primary responsibility for preparing it, the Board will monitor the completion and implementation of it;

(ii) the Board has identified the principal risks of the company’s various businesses and monitors management’s policies on managing these risks;

(iii) the Board reviews personal needs at the management level from time to time having regard to succession and other issues. The training and development of personnel is left to management. The Board considers that the management personnel recruited to date are seasoned and as such do not need training but rather an introduction to the strategic plan and corporate culture of the company.

(iv) the company has an information disclosure policy which disseminates information so as to ensure equal and fair treatment for all shareholders, irrespective of the size of their holdings. Timely dissemination of material information to all investors is a cornerstone of the information disclosure policy.

Several employees of the company as well as an outside consultant are mandated to provide answers to any shareholder inquiries.

(v) the Board, through the audit committee and in conjunction with the company’s auditors, assesses the adequacy of the company’s internal controls and management information systems.

(2) The Board consists of 9 directors, 7 of whom are “unrelated” within the meaning of the governance guidelines. The company does not have a “significant shareholder”, defined by the guidelines to be a shareholder with the ability to exercise a majority of votes for the election of directors.

(3) The Board has considered the relationship of each director to the company with a view to determining that a majority are unrelated. Since none of the unrelated directors are significant shareholders and since, in the Board’s view, none has any business or other relationship which could or could be perceived to materially interfere with that director’s ability to act with a view to the best interest of the company, the Board has concluded that the criteria for unrelated directors has been met.

(4) The Board has not constituted a nominating committee with responsibility for proposing new nominees to the Board, because the Board feels that the company is too small to justify a formal process in this regard; however, the Board as a whole discusses potential candidates for election to the Board from time to time. The Board is considering the necessity for a nominating committee which will have as one of its mandates

the tasks referred to in paragraphs (4) and (5).

(5) The Board has not constituted a committee for assessing the effectiveness of the Board as a whole, nor of the committees of the Board, nor the contribution of individual directors, in large for the reasons set out in paragraph (4).

(6) The company does not have a formal process of orientation or education for new members of the Board, as all Board members have experience as members of the boards of other public companies. As new directors are recruited, if the need arises, a formal orientation and education program will be implemented.

(7) The Board has considered its size and has concluded that the number of directors is appropriate for the company given the complexities of its operations and the international businesses. The Board recognizes the need to add at least one director with experience in international transactions, but otherwise has sufficient depth in the financial and legal aspects of governance.

(8) The Board members are compensated as described under "Compensation of Directors" in the Company's Management Information Circular. The Board has determined that the level of compensation is appropriate having regard to the responsibilities and risks associated with the Board membership and the compensation

provided to boards of similar companies.

(9) The Board recognizes that committees should be composed of a majority of outside directors except for the executive committee which should be comprised of the Chairman, the President and Chief Executive Officer ("CEO"), and at least one outside director.

(10) The Board has expressly assumed responsibility for developing the approach to governance issues and to respond to governance guidelines proposed by the regulators.

(11) The Employment Agreement between the company and the CEO outlines extensively the responsibilities of the CEO. These responsibilities have appropriate limits, and include corporate objectives which the CEO is responsible for meeting.

(12) The Board is of the view that it can function independently of management if required. The Chairman of the Board is not the CEO. In the past, the Board has usually met with management being present because the nature of its business and the international aspects of some of its transactions require that those with intimate knowledge of the company's operations be present during Board discussions. The Board has met without the CEO being present to assess its own expectations of him as part of the management team. If the Board feels it is appropriate and meaningful, the

Board will meet in absence of management for the express purpose of reviewing the Board's relationship to management.

(13) The Audit Committee is currently comprised of outside directors. The roles and responsibilities of the Audit Committee have been specifically defined and include responsibility for overseeing the management reports on internal controls. The Audit Committee has direct communications with the internal and external auditors to discuss and review specific issues as appropriate. The company has no formal internal audit process.

(14) The Board has not adopted a system which would enable an individual director to engage an outside advisor at the expense of the company. If such an engagement were appropriate, it is the expectation that such request would be brought forward by the director to the Board for its consideration.

(15) The Board has committed to evolve policies to address those areas where it is not in compliance with the governance guidelines and considers that it should be.

FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis is management's review of the Chai-Na-Ta Group's financial results and position for fiscal 1996, together with our general expectations for the future.

During 1996 the company undertook two significant investment transactions which have a material impact on the 1996 financial report. At the beginning of fiscal 1996, Chai-Na-Ta Corp. increased its ownership of Unique Formulations, Inc. ("Unique") by purchasing an additional 40% interest. This brought the company's total ownership to a control position, and accordingly the results of Unique are consolidated with the group in 1996. In addition, during the fourth quarter Chai-Na-Ta agreed to divest a portion of its ownership in Dalian Pegasus Ginseng Pharmaceutical Co. Ltd. ("Dalian"), reducing its ownership to approximately 26% of the venture. As the company was no longer in a control position, it ceased to consolidate the results of Dalian at year end.

Chai-Na-Ta also launched new value-added product marketing programs in Mexico and China during the year.

RESULTS OF OPERATIONS

During 1996, Chai-Na-Ta achieved consolidated revenues of \$34.4 million and net earnings of \$6.2 million. This compares with 1995 revenues and earnings of \$25.9 million and \$5.1 million respectively.

Consolidated group revenues increased by 44% in 1996. This increase was fueled by an increase in bulk root production as well as a growth in value-added product sales.

During 1996, the company harvested 308 acres, an increase of 108 acres from the prior year. Total production

increased by 37% to 665,000 pounds. Yields declined to 2150 pounds per acre from 2,400 in 1995, as a result of a shorter growing season in 1996 and the effect of past seeding methods on plant populations. Yields per acres are expected to increase under normal growing conditions due to changes in farm management practices initiated three years ago.

Bulk root volume sold increased by 52% due to the increased harvest in 1996 and reduction of inventories from the prior year. In addition, the Chai-Na-Ta Group sold approximately 88,000 pounds of root which was purchased from other growers, and increase of 25% over the 1995 volume. Lower bulk root prices during the year somewhat mitigated the effect of the volume increase. Average prices achieved on bulk and graded root in 1996 declined to approximately 17% to \$34 per pound. The main reason for this decrease were lower overall root quality in the industry created by a poor growing season and pricing pressure caused by changes in the traditional broker distribution network. Bulk root prices are highly dependent on the quality of production in the industry as a whole, since low quality roots may create a surplus of by-product in the traditional graded ginseng market and depress prices for the prongs and fiber portion of bulk root.

Value added consumer product sales increased by over 200% in 1996 to \$4.7 million. The improvement was a result of program growth in the USA and China, as well as new operations in Mexico and the consolidation of Unique in the 1996 results. As a percentage of total revenues, value-added products increased to 14% as compared to 5.5% in 1995. This

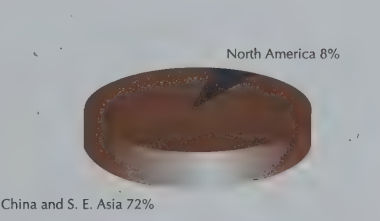
percentage is expected to grow as the company continues to focus on its vertical integration business strategy.

Gross margins declined during the year to 46.4% from 51.7% in 1995. A portion of this decline was caused by lower bulk root prices, and by an increase in cost per pound harvested in 1996. The increase in cost per pound resulted from the lower yield per acre in 1996. Chai-Na-Ta's yields however, have remained above industry averages and the company's cost of production

Sales by Product Group



Sales by Region



is well below the industry norm. Future reductions in cost per pound are expected as yields increase and further economies are realized.

In addition, gross margins were affected by the increase in value-added product sales in 1996. Certain value-added products such as multivitamins and echinacea products, include purchased ingredients which earn lower margins than those of the company's ginseng. This has the effect of bringing the average margin down in percentage terms, but still results in gross margin dollar growth. The company's sales of root purchased from other growers also reduce the

average margin as there is no producer profit margin component on these transactions. These factors will continue to affect margins in the near term as the company further expands its consumer products business lines and continues to buy root from other growers to meet consumer demand.

Selling, General and Administrative expenses increased by \$1.8 million to \$6.0 million in 1996. The largest component of this increase is attributable to the inclusion of Unique's selling and administrative costs in 1996 consolidated results. As a percentage of sales, consolidated selling, general and administrative costs represented 17.4% in 1996 (16.4% excluding Unique) as compared to 16.3% in 1995. The increase was in line with management's expectations and results from increased spending associated with the expansion of the company's consumer products business divisions. These programs still in development have not yet reached the same level of economies relative to revenues. Expenses in proportion to consolidated revenue still remain below the 19% level achieved in years prior to 1995, but are expected to increase slightly relative to sales due to increased marketing expenditures for consumer products.

Consolidated Selling, General & Administrative expenses reflect the costs incurred to operate all divisions in the Chai-Na-Ta Group. However, as the company is vertically integrated, consolidated revenues do not include transactions between related divisions. As a result, revenues appear lower, and expenses as a percentage of consolidated revenues appear higher than if similar, but unrelated business were aggregated and

compared to Chai-Na-Ta. The Chai-Na-Ta Group's combined revenues in 1996 totaled \$63.7 million, as compared to \$50.7 million in 1995. Expenses as a percentage of combined revenues totaled only 9.4%, as compared to 8.3% in the prior year.

Consolidated interest costs increased to \$2.0 million in 1996 from \$1.3 million in the prior year. This increase resulted from additional term debt, raised during the year to fund further crop expansion and new marketing programs. As ginseng is a three to four year crop requiring significant early period financing, the portion of interest costs related to financing crop costs is capitalized and expensed to cost of sales in the year the related crops are sold. This provides a better matching of costs with revenues during periods in which the company expands its crop production. In 1996, approximately \$1.4 million in interest was expensed to cost of sales. Total interest costs are expected to increase relative to 1996, since the debt raised during the year was only outstanding for part of the year.

The Equity Loss of Unique Formulations, Inc., was not applicable in 1996, as the results of Unique were consolidated in the year. In 1995, the company did not hold a controlling position of this entity, and recorded the investment under the equity method.

The consolidated income tax provision declined to 33% of pretax income from 37.6% in the prior year. In 1995, a higher proportion of income was earned in Canada (a comparatively high tax rate jurisdiction) due to higher farm prices, lower production costs, and the effect of sale of crops to the President / Chai-Na-Ta Farms

Partnership that year. The current year rate is comparable to the 31.1% rate in 1994, which is calculated after excluding that year's non-taxable gain. The consolidated income tax rate is expected to decline slightly due to greater sales of value-added products in the lower tax regions in which the company operates.

Net income rose by 21% over 1995 net income primarily due to the higher volume of root sold during the year. Net income as a percentage of sales declined to 18.1% from 19.9% in 1995 as a result of lower root prices, the effect of sales of lower margin consumer products, and expenditures related to start up and development of value-added consumer product marketing programs.

Return on average equity declined to 18.4% from 19.3% in 1995. The decline was caused by the partial conversion of convertible debt by the holder during the year. The debt had a low 3% coupon rate, and therefore the conversion had only a small impact on interest expense. In addition, lower gross margin on farms product impacted the current year's ratio.

FINANCIAL POSITION & LIQUIDITY
Cash provided from operations increased by \$4.5 million to \$20.3 million for fiscal 1996. This increase was a result of growth in net income and the increase volume of harvest in 1996. However, due to the late harvest season in 1996, a majority of the fourth quarter bulk root sales were made near the end of the fiscal year and remained in accounts receivable at year end. Consequently, accounts receivable increased by \$14.3 million over the prior year and cash flow from operating activities

before reinvestment to non - current crops declined to \$2.8 million. Cash provided from operations is expected to continue to grow as higher levels of acreage mature for harvest.

During the year, the company issued \$20 million in secured, non convertible term debt to John Hancock Mutual Life. A portion of this financing was used to retire the company's bank operating line, repay certain higher rate capital leases, and pay issue costs. The balance of \$10.9 million went to general working capital and will be used in further expand crop production as well as to finance growth in the value - added product marketing operations. The transaction included the issue of warrants to the lender to purchase 302,500 shares at a price of \$12.80 per share.

With the new capital raised during the year, the company was able to resume its crop planting expansion. In 1996, a total of 368 acres were planted, an increase of 144 acres over the 1995 planting and representing 60 more acres than the 1996 harvest. The company's long term strategy is to continue to expand acreage, up to the level necessary to achieve a 500 acre annual harvest. Expenditures on crops before depreciation increase by only 2.2% in 1996, to \$10 million. Farming equipment and shade structure expenditures totaled \$0.6 million, substantially below the \$2.0 million spent in 1995. This represents the second consecutive year of declines in farm capital spending, a result of economies of scale and reuse of shade structure assets from increasing harvests. Shade cloth is generally expected to have a useful life of 3 or more crop cycles.

During the year, US \$1.5 million of

term debt was converted to equity by the lender. This resulted in the issuance of 159,525 shares. An additional 13,630 shares were issued under stock options raising approximately \$0.1 million in new capital.

Working capital improved significantly in 1996 to \$40.2 million from \$8.6 million in 1995. The increase was due to the \$20 million term debt financing, 1996 earnings, and the effect of no longer consolidating the operations of Dalian Pegasus Ginseng Pharmaceutical Co., Ltd. Gross assets rose to \$85 million from \$70 million in 1995, as a result of earnings growth and the new financing. Offsetting these factors was the impact of no longer consolidating the operations of Dalian, which reduced gross assets by approximately \$8.2 million.

RISKS & UNCERTAINTIES

The company operates in international markets and conducts business in Canadian, U.S., Mexican, Hong Kong and Chinese currencies. Exchange risks are present as currencies may fluctuate at different rates depending on economic, political and other factors. The company has a natural hedge on some of its US dollar currency exposure as it makes both sales and expenditures in this currency. The Hong Kong dollar has historically followed the US dollar exchange rate and exchange rate hedges on the US dollar have been effective in covering risk in the Hong Kong dollar as well. The Mexican Peso has shown volatility in exchange market in recent months, and accordingly the company intends to hedge this exposure by purchasing forward exchange contracts to cover net receipts at the time of making a sale. In addition, all significant cash balances are maintained in US dollars,

and manufacturing is sourced locally as a natural hedge. The Chinese remimbi is not currently a convertible currency outside of China, the government has managed to maintain a relatively stable internal currency conversion rate to US dollars. It is possible, however, that future devaluations of the remimbi could occur similar to that which occurred in 1993. This could have an adverse effect on profitability of Chinese operations, should it occur. To help offset this risk, our China based projects are financed to the extent possible in local currencies. Political risks exist in parts of Asia, the company's primary market. In particular China, with the recent change in leadership could undergo a period of uncertainty. The company takes the view that the leadership transition was expected, and any uncertainty which might arise will be short term in nature. The takeover of Hong Kong by China in 1997 is not expected to significantly alter the business and economic conditions in the region. However, the company has relatively small long term capital commitments in Hong Kong and operations could easily be relocated, if necessary.

The company has historically used term debt financing to finance long term capital asset acquisitions, including crops, and short term borrowings to finance working capital needs. Interest rate risk is managed by fixing most term debt financing rates for the life of the obligations. Working capital loans are short term in nature and represent a relatively small portion of total borrowings. Accordingly, management does not make arrangements to hedge interest rate risk on this debt.

The company sells most of its bulk root to a small number of customers in a highly seasonal market. Through its vertical integration program, Chai-Na-Ta is attempting to increase distribution channels and further diversify its customer base to reduce customer risk. Credit terms are carefully monitored, and credit is only granted to customers with established relationships. Letters of credit may be used, or inventory may be held as security until payment is received when such relationships have not been established.

Ginseng, as an agricultural product, may be subject to agricultural risks, including risks of low yields, poor crop quality, and crop failure. To minimize these risks, the company employs an extensive team of plant science specialists, cultivates crops at multiple sites in British Columbia and Ontario, and undertakes a wide array of risk management techniques. In addition, the price of unprocessed ginseng is determined in world markets and may be affected by factors such as size, shape, color, taste, and the quality of harvest in the industry at large in any given year. These are factors that the company may not be able to control in the short term. Our long term strategy is to expand the level of vertical integration in the company, reducing the exposure to bulk ginseng price fluctuations as more ginseng is sold into the value - added consumer products market.

OUTLOOK

The company currently has 1,470 acres under cultivation, which will form the base for its growth with increasing harvests over the next four years. In addition, value - added product marketing programs now underway in China, Hong Kong, Canada, the United States and Mexico

will fuel additional growth by bringing new sources of revenue to Chai-Na-Ta and increasing the realized price for our farm production. These programs have just begun to tap the market potential for the regions in which they operate, but the company has built a strong foundation for continued growth in the future.

SIX YEAR SUMMARY

CHAI-NA-TA CORP.

(Stated in Thousands of Canadian Dollars Except Per Share Amounts)

	Year Ended	Year Ended	Year Ended	Six Months Ended	Year Ended	Year Ended	Year Ended
	Nov. 30	Nov. 30	Nov. 30	Nov. 30	May 31	May 31	May 31
	1996	1995	1994	1993	1993	1992	1991
	\$	\$	\$	\$	\$	\$	\$
Sales	34,430	25,878	19,085	2,098	10,469	7,942	3,484
Gross Profit	15,989	13,374	9,719	(210)	6,223	5,538	2,716
Pretax Income (Loss)	9,282	8,241	5,917	(2,280)	4,086	3,586	1,818
Net Income (Loss)	6,222	5,141	4,275	(1,495)	3,085	2,006	1,040
Earnings Per Share	1.60	1.38	1.17	(0.42)	0.90	0.66	0.32
Dividends Paid Per Share	(1)	-	(2)	-	(3)	(4)	(5)
Ginseng Crops	25,455	24,229	19,702	14,630	13,942	10,695	7,244
Total Assets	85,054	69,966	58,252	40,926	30,337	20,460	13,478
Shareholders' Equity	38,307	29,370	23,835	17,727	17,824	13,611	8,282
Return on Average Equity	18.4%	19.3%	20.6%	N/A	19.6%	18.3%	13.6%
Acres under Cultivation	1,470	1,410	1,386	991	763	542	384

- (1) On April 23, 1996 the Company paid a 2.5% stock dividend.
 (2) On August 5, 1994 the Company paid a 1.67% stock dividend.
 (3) On May 28, 1993 the Company paid a 2.5% stock dividend.
 (4) On May 29, 1992 the Company paid a 2.5% stock dividend.
 (5) On May 22, 1991 the Company paid a 5.0% stock dividend.

AUDITORS' REPORT

To the Shareholders of

CHAI-NA-TA CORP.

We have audited the consolidated balance sheets of Chai-Na-Ta Corp. as at November 30, 1996 and 1995 and the consolidated statements of earnings, retained earnings, changes in financial position and crop costs for each of the years in the three year period ended November 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1996 and 1995 and the results of its operations and the changes in its financial position and crop costs for each of the years in the three year period ended November 30, 1996 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, British Columbia
February 3, 1997

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Chai-Na-Ta Corp. is responsible for the preparation and integrity of the financial statements of the company. The financial statements have been prepared in accordance with generally accepted accounting principles using management's estimates and judgments when necessary. The financial information contained elsewhere in this annual report is consistent with that in the income statement, balance sheet and statements of changes in financial position and crop costs.

Chai-Na-Ta Corp. maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed the benefits to be derived from the system. The system is supported by written policies and guidelines, and is continuously reviewed.

Deloitte & Touche, independent auditors are retained to audit Chai-Na-Ta Corp.'s financial statements. Their audit is conducted in accordance with generally accepted auditing standards and provides an independent assessment that helps assure fair representation of the company's financial position, results of operations and cash flows. Their opinion on the financial statements is published separately in this annual report.

The Board of Directors through its Audit Committee, exercises an oversight role in the company's financial affairs and statements. The committee meets with management and the independent auditors as required. These meetings include discussions of internal accounting control and the quality of management and financial reporting. Both the Finance and Administration department of the company and the independent auditors have full and free access to the Audit Committee.



Gerry Gill
President & CEO

CONSOLIDATED BALANCE SHEETS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

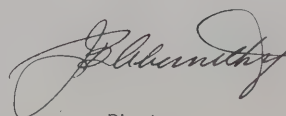
As at November 30	1996 \$	1995 \$
ASSETS		
Current assets		
Cash	8,492,782	1,903,630
Accounts receivable	24,433,617	11,854,915
Inventory	3,076,934	3,971,144
Ginseng crops (Note 3)	7,861,831	8,234,504
Prepaid and other assets	264,994	113,834
	44,130,158	26,078,027
Investments (Note 2)	6,047,576	195,039
Ginseng crops (Note 3)	17,593,012	15,994,752
Capital assets (Note 4)	14,532,467	19,545,252
Other assets (Note 5)	2,750,806	8,152,822
	85,054,019	69,965,892
LIABILITIES		
Current liabilities		
Lines of credit (Note 6)		5,655,000
Short-term borrowings (Note 7)	281,942	5,224,997
Accounts payable and accrued liabilities	3,548,851	6,221,441
Current portion of term debt (Note 8)	119,332	333,288
	3,950,125	17,434,726
Term debt (Note 8)	28,969,264	12,434,890
Deferred gain (Note 9)	581,275	260,000
Capital due to co-venturer (Note 9)	1,312,500	1,687,500
Deferred income taxes	11,299,781	8,346,178
Non-controlling interests	634,508	432,628
	46,747,453	40,595,922
SHAREHOLDERS' EQUITY		
Share capital (Notes 10 and 11)	17,221,164	15,063,257
Additional paid-in capital (Note 11)	825,000	
Cumulative translation adjustment	(288,604)	(20,366)
Retained earnings	20,549,006	14,327,079
	38,306,566	29,369,970
	85,054,019	69,965,892

Commitments (Note 13)

APPROVED BY THE BOARD:



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

Years Ended November 30	1996 \$	1995 \$	1994 \$
Revenue	34,429,647	25,878,272	19,085,540
Cost of goods sold	18,440,782	12,504,227	9,366,280
	15,988,865	13,374,045	9,719,260
Selling, general and administrative expenses	5,999,926	4,210,632	3,702,267
Interest and financing charges	614,585	679,403	578,608
	6,614,511	4,890,035	4,280,875
Operating income	9,374,354	8,484,010	5,438,385
Other income	109,201	74,147	136,544
Equity loss of Unique Formulations, Inc.		(147,416)	(144,162)
Non-controlling interests	(201,880)	(169,831)	(153,359)
Gain on sale of interest in Chai-Na-Ta (Asia) Ltd. (Note 19)			639,407
Earnings before income taxes	9,281,675	8,240,910	5,916,815
Provision for income taxes (Note 12)	3,059,748	3,100,000	1,642,000
NET EARNINGS	6,221,927	5,140,910	4,274,815
Basic earnings per share	1.60	1.38	1.17
Fully diluted earnings per share	1.32	1.15	1.00
Weighted average number of shares used to calculate basic earnings per share	3,885,539	3,726,102	3,642,288

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

Years Ended November 30	1996 \$	1995 \$	1994 \$
Balance, beginning of year	14,327,079	9,004,763	4,979,948
Net earnings	6,221,927	5,140,910	4,274,815
Retirement of warrants (Note 11)	-	-	(250,000)
Foreign withholding taxes recovered on stock dividends	-	181,406	-
Balance, end of year	20,549,006	14,327,079	9,004,763

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

Years Ended November 30	1996 \$	1995 \$	1994 \$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES			
Cash provided from operations (Note 15)	20,304,108	15,761,451	11,857,192
Changes in non-cash operating working capital items (Note 15)	(17,472,708)	1,523,982	(5,278,071)
Change in non-current crop costs	(5,846,048)	(6,591,961)	(7,219,050)
	(3,014,648)	10,693,472	(639,929)
FINANCING ACTIVITIES			
Issuance of share capital	2,157,907	339,094	1,932,390
Increase in deferred financing costs	(1,517,258)	(564,415)	-
Issuance (retirement) of term debt, net	16,320,418	3,483,947	(1,582,963)
Deferred gain	321,275	260,000	-
Joint venture capital contributed by (returned to) co-venturer	(375,000)	1,687,500	-
Non-controlling interests	-	-	109,438
Stock dividend withholding tax	-	181,406	-
Issuance (retirement) of warrants	825,000	-	(250,000)
	17,732,342	5,387,532	208,865
INVESTING ACTIVITIES			
Investments	(166,183)	(114,397)	(372,220)
Purchase of capital assets, net	(1,755,889)	(7,130,076)	(5,741,163)
Decrease (increase) in other assets	(283,232)	(3,513,051)	(3,617,702)
Deferred translation gain (loss)	(268,238)	(126,007)	150,143
	(2,473,542)	(10,883,531)	(9,580,942)
NET CASH INFLOW (OUTFLOW)	12,244,152	5,197,473	(10,012,006)
CASH AND CASH EQUIVALENTS POSITION, BEGINNING OF YEAR	(3,751,370)	(8,948,843)	1,063,163
CASH AND CASH EQUIVALENTS POSITION, END OF YEAR	8,492,782	(3,751,370)	(8,948,843)
Represented by:			
Cash in banks	8,492,782	1,903,630	457,909
Lines of credit	-	(5,655,000)	(9,406,752)
	8,492,782	(3,751,370)	(8,948,843)

CONSOLIDATED STATEMENTS OF CROP COSTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

Years Ended November 30	1996 \$	1995 \$	1994 \$
Depreciation	1,654,405	1,750,679	1,278,340
Farm equipment operating costs	747,381	687,541	652,680
Interest and financing charges	1,392,237	660,654	481,892
Land rental	691,328	589,601	666,482
Mulch and fertilizer	1,814,512	1,955,245	2,034,021
Other	146,914	111,733	92,762
Plant science	37,826	26,980	24,190
Salaries and wages	4,304,192	4,477,086	4,328,507
Seed	600,937	914,270	853,746
Small tools and supplies	93,709	72,313	65,438
Warehouse and dryer operations	154,422	269,261	82,043
	11,637,863	11,515,363	10,560,101
Balance, beginning of year	24,229,256	19,701,679	14,629,883
	35,867,119	31,217,042	25,189,984
Less:			
Cost of crop and seed harvested during year	10,412,276	6,346,221	5,488,305
Sale of crops to Joint Venture		641,565	-
Balance, end of year	25,454,843	24,229,256	19,701,679
Less: current portion	7,861,831	8,234,504	5,435,155
	17,593,012	15,994,752	14,266,524

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

FOR THE YEARS ENDED NOVEMBER 30, 1996, 1995 AND 1994

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ in some respects from those in the United States (Note 18), and reflect the following significant accounting policies:

(a) Description of business

The Company operates ginseng farms in Canada, planting, cultivating and harvesting the ginseng root. Through its affiliates, the Company operates ginseng processing and marketing facilities in Hong Kong, China, the Caribbean, Mexico and the United States.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and those of its subsidiaries and joint ventures. All intercompany transactions and balances have been eliminated.

At November 30, 1996, the Company's effective ownership interests in these companies were as follows:

SUBSIDIARIES

Chai-Na-Ta Farms Ltd.	100%
Chai-Na-Ta International Ltd.	100%
Chai-Na-Ta (Asia) Ltd.	90.4%
North American Ginseng Enterprises Limited	90.4%
Unique Formulations, Inc.	90%

JOINT VENTURES (consolidated on a proportionate basis)

Wuxi Zhong Jia American Ginseng Natural Tonics Co. Ltd.	46.1%
Skeetchestn / Chai-Na-Ta Xexe7ellp (Potent) Ginseng Joint Venture	50%
President / Chai-Na-Ta Farms Partnership	30%

(c) Revenue recognition

Revenue is recognized when title has been transferred or ginseng products have been delivered to customers.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value.

(e) Deferred financing costs

Deferred financing costs are amortized on a straight-line basis over the term of the related debt and are included in interest and financing charges for the year.

(f) Deferred development costs

Pre-operating branch start-up costs are amortized on a straight line basis over a five year period from the date the branch commences operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Ginseng crops

The Company uses the full absorption costing method to value its ginseng crops. Included in crop costs are seed, labour, applicable overhead, interest and supplies. Costs are allocated each year based on the total number of acres under cultivation during the year.

Those crop costs relating to the acreage harvested and sold have been charged to cost of sales.

(h) Foreign currency translation

Financial statements of the Company's foreign operations are translated using the current rate method.

Adjustments arising from this translation are deferred and recorded under a separate caption of Shareholders' Equity and are included in income only when a reduction in the investment in these foreign operations is realized.

(i) Capital assets and depreciation

Capital assets are depreciated on a straight-line basis over the following periods:

Buildings	20 years
Computer equipment and software	4 years
Furniture and fixtures	10 years
Leasehold improvements	10 years
Machinery and equipment	10 years
Sunshade	10 years
Vehicles	8 to 10 years

(j) Investments

The Company accounts for its investments in which it has significant influence using the equity method, whereby the Company's share of net earnings is included in earnings for the year and the Company's investment therein is adjusted accordingly. Provisions are made for any impairment in value which are determined to be other than temporary.

(k) Goodwill

Goodwill arising on acquisition is amortized on a the straight-line basis over a ten year period. Provisions are made for any impairment in value which are determined to be other than temporary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

2. INVESTMENTS

(a) Unique Formulations, Inc.

During 1994, the Company acquired a 50% interest in Unique Formulations, Inc. in exchange for \$70,975 in cash, and accounted for the investment using the equity method. The balance at November 31, 1995 was \$195,039.

During 1996, the Company increased its ownership from 50% to 90% interest in Unique Formulations, Inc. in exchange for an additional \$339,000 by way of debt conversion.

The acquisition has been accounted for using the purchase method and the excess purchase price over the net book value of tangible assets acquired has been allocated to goodwill. The Company has consolidated operations since the acquisition date.

Net estimated fair value of assets acquired:

Current assets	\$ 666,437
Capital assets	28,792
Goodwill	384,369
	1,079,598
Current liabilities	672,568
Other liabilities	68,030
	740,598
	\$ 339,000

Goodwill is being amortized on a straight-line basis over ten years. Amortization for the current year is \$23,147

(b) Dalian Pegasus Ginseng Pharmaceutical Co., Ltd.

During 1996, the Company agreed to divest a portion of its investment in Dalian Pegasus Ginseng Pharmaceutical Co., Ltd. ("Dalian") from 77.3% to approximately 26% ownership with further dilution anticipated to 13%. As at November 30, 1996, the Company has accounted for the investment using the equity method.

Net estimated for value of investment:

Current assets	\$ 2,001,462
Capital assets	5,162,598
Other assets	7,060,089
	14,224,149
Current liabilities	8,176,573
	\$ 6,047,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

3. GINSENG CROPS

Ginseng plants reach maturity and can be harvested at the end of their third year. However, the Company may allow crops to mature longer to allow for higher yields and the harvesting of an additional year of seed. Costs accumulated relating to the expected harvest in the next year have been classified as current assets. At present, total acreage under cultivation is 1,470 acres. A breakdown of acres under cultivation by year planted is as follows:

Year planted	Number of acres
1992	137
1993	191
1994	550
1995	224
1996	368
	1,470

4. CAPITAL ASSETS

	1996		1995	
	Cost \$	Accumulated Depreciation \$	Cost \$	Accumulated Depreciation \$
Land	935,515	-	935,515	-
Buildings	2,316,630	391,198	6,895,622	307,656
Computer equipment and software	285,812	153,076	175,532	163,610
Furniture and fixtures	447,653	187,812	292,618	110,085
Leasehold improvements	533,186	186,806	431,675	140,350
Machinery and equipment	4,768,721	1,826,536	4,533,367	1,524,355
Sunshade	12,859,338	5,041,369	12,453,689	4,067,838
Vehicles	458,182	285,773	398,265	257,137
	22,605,037	8,072,570	26,116,283	6,571,031
Cost less accumulated depreciation		14,532,467		19,545,252

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

5. OTHER ASSETS

	1996 \$	1995 \$
Land purchase option	74,000	74,000
Deferred financing costs, net amortization	1,831,175	851,904
Deferred development costs	400,417	5,007,891
Lease deposit	-	1,541,252
Patents and rights	-	568,539
Advances	83,992	109,236
Goodwill	361,222	
	2,750,806	8,152,822

6. LINES OF CREDIT

The Company had available a \$8,500,000 line of credit that bore interest at prime plus 3/4% with a Canadian chartered bank that was secured by a first charge over certain assets of the Company. The repayment terms were dependent upon proceeds from ginseng sales. Borrowings of \$5,655,000 against this line of credit were outstanding at November 30, 1995. This line of credit was repaid during the year and the facility was cancelled as part of the financing in Note 8(b).

7. SHORT-TERM BORROWINGS

		1996 \$	1995 \$
Short-term bank loan - Wuxi, China	(a)	281,942	489,622
Short-term loans - Dalian, China	(b)	-	4,735,375
		281,942	5,224,997

- (a) During 1994, the Company borrowed \$600,000 USD from a Chinese bank. The loan bears interest at the US currency floating prime rate of the Chinese government, and is secured by China National Pharmaceutical Foreign Trade Corp., a co-venturer in Wuxi Zhong Jia American Ginseng Natural Tonics Co. Ltd. At November 30, 1996, \$208,645 USD remains outstanding (1995 - \$357,000 USD). The loan was repaid subsequent to November 30, 1996.
- (b) During 1995, a subsidiary of the Company obtained short-term loans totalling 28,699,246 RMB from various suppliers and a Chinese bank. The loans bear interest at varying rates between 10.8% and 25.0%; 6,125,000 RMB is secured by buildings and various other assets and 5,000,000 RMB is guaranteed by Dalian Huada Engineering Co., Ltd., an affiliate of the Company's co-investor in Dalian Pegasus Ginseng Pharmaceutical Co., Ltd. ("Dalian"). These loans are repayable upon demand. During 1996, the Company agreed to divest a portion of its ownership of Dalian as described in Note 2(b), and as a consequence of this the Company no longer consolidates the operations of Dalian.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

8. TERM DEBT

		1996 \$	1995 \$
Convertible loan	(a)	6,202,021	8,285,605
Debentures and notes payable	(b)	22,641,724	3,360,600
Land purchase loan	(c)	207,655	288,704
Capital leases	(d)	37,196	833,269
		29,088,596	12,768,178
Less: current portion		119,332	333,288
		28,969,264	12,434,890

(a) Convertible loan

During the six months ended November 30, 1993, Chai-Na-Ta (Asia) Ltd (CNTA), a subsidiary of the Company, issued a \$6,089,670 USD unsecured loan. The loan bears interest at the highest of 3% or CNTA's dividend yield (1996 and 1995 - 3%). The loan shall be repaid in full on September 6, 1998 unless the loan has been converted as follows:

- (i) into shares of the Company's subsidiary, CNTA. The percentage of shares to be issued expressed as a percentage of the shares outstanding after giving effect to the conversion will be calculated by dividing the loan amount by the sum of the loan amount and the conversion value of CNTA. The conversion value of CNTA is calculated by multiplying the consolidated after tax earnings of CNTA for the year ended November 30, 1994 by a price earnings multiple of at least 4.5. As per the loan agreement, this price earnings multiple will be adjusted in the event that CNTA is called for trading on a recognized stock exchange or over-the-counter market.
- (ii) alternatively, the lender may convert the loan into shares of North American Ginseng Enterprises Limited (NAGEL). The percentage of shares to be issued expressed as a percentage of the total number of shares of NAGEL which will be issued and outstanding after giving effect to the conversion, shall be equal to the percentage that would be obtained if the loan was converted into shares of CNTA.
- (iii) alternatively, the lender may convert the loan into shares of the Company. The effective price at which the loan may be converted shall be the current public offering price less a 5% discount. The amount to be converted shall be the greater of the loan amount and the amount calculated by multiplying the percentage of shares that would be issued if converted into CNTA by the conversion value using a price earnings multiple of 7.

In no event shall the lender receive less than 15%, or more than 35% of the common shares of CNTA or NAGEL outstanding after conversion. If as a result of any such conversion the lender would be entitled to more than 35% of the outstanding common shares of CNTA or NAGEL following conversion, the lender shall be entitled to convert the otherwise unconvertible portion of the loan into shares of the Company under the terms as described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

8. TERM DEBT (Continued)

During 1996, the lender converted \$1,500,000 USD of this loan into 159,525 shares at a price of \$9.40 USD per share.

The Company incurred financing costs of \$404,774 on issuance of this convertible loan of which \$280,580 has been amortized to date (1995 - \$215,379). In addition, the lender has been issued "C" share purchase warrants (Note 11(b)).

(b) Debentures and notes payable

- (i) During 1995, through a private placement, the Company issued two \$500,000 USD 1995 "Series A" convertible debentures that mature on June 12, 2000. The debentures bear interest at 8.5% and interest is paid semi-annually in arrears on June 30 and December 31; the first payment was made on December 31, 1995.

Each "Series A" debenture is convertible into common shares of the Company at the option of the holder at any time during the first two years after issue at a conversion price of \$9.12 USD; thereafter, until 120 days prior to maturity, the conversion price is \$10.64 USD. The Company may require the holders to convert the "Series A" debentures into common shares after two years at a conversion price of \$10.64 USD if the common shares are trading at a price exceeding \$13.84 USD. In addition, the Company issued "E" share purchase warrants to the private placement agent (Note 11(b)).

The Company incurred financing costs of \$144,999 on issuance of these convertible debentures of which \$43,494 has been amortized to date (1995 - \$14,494).

- (ii) During 1995, the Company issued a \$2 million secured convertible debenture bearing interest at prime plus 3%. As a result of issuing the senior secured notes (Note 8(b)) the November 30, 1996 balance of cash includes \$2,150,000 required to be kept as a reserve to retire the debt on maturity.

The debenture is convertible into common shares of the Company at the option of the holder any time after March 31, 1996 at a conversion price of \$12.84. The debenture will mature on December 31, 1997 unless converted by the issuer. If held to maturity, the holder is entitled to a 5% cash bonus on the outstanding balance at the date of maturity.

The Company incurred financing costs of \$146,668 on issuance of this debenture of which \$72,960 has been amortized to date (1995 - \$748).

- (iii) Due to the acquisition of Unique Formulations, Inc., the Company, assumed a \$50,000 USD unsecured, non-interest bearing note payable. Repayment of this note is not expected to occur within the next fiscal year (Note 2(a)).

- (iv) During the year, the Company issued \$20 million in senior secured notes that mature in equal amounts on June 30, 1999, June 30, 2000, and June 18, 2001. The notes are secured by a first charge over certain assets of the Company. These notes bear interest at 10.6% and interest is paid semi-annually in arrears on June 30 and December 31; the first payment was made on June 30, 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

8. TERM DEBT (Continued)

(b) Debentures and notes payable (continued)

In addition, the Company issued transferable "F" share purchase warrants entitling the holders to purchase 275,000 common shares of the Company at a price of \$12.80 until June 18, 2001. Consideration of \$825,000 has been allocated to Additional Paid-in Capital which represents a discount on the notes. The discount is being amortized ratably over the period to maturity.

The Company incurred financing costs of \$1,539,030 on issuance of this debenture of which \$293,560 has been amortized to date.

(c) Land purchase loan

During the year ended May 31, 1993, the Company entered into an agreement to purchase 220 acres of agricultural land for \$590,000. This amount is payable over five years with annual principal and interest repayments on March 31, 1993 and May 1, 1994 to May 1, 1998.

The loan bears simple interest at 10% calculated on the loan balance outstanding on the anniversary date of December 7th of each year.

(d) Capital leases

The Company has entered into capital leases which expire in 1998 and 2001. The capital leases bear interest at the approximate rate of 7.5%. The leased capital assets have been recorded as machinery and equipment and are amortized on a straight-line basis over 10 years.

	1996 \$	1995 \$
Cost	43,153	1,226,795
Accumulated amortization	3,515	181,753

Principal repayments are due as follows:

1997	\$ 7,093
1998	7,527
1999	8,150
2000	9,029
2001	5,397
Thereafter	
	<u>\$ 37,196</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

9. JOINT VENTURES

During 1995, the Company entered into two joint ventures that operate ginseng farms in British Columbia, Canada. These joint ventures plant, cultivate and harvest ginseng root.

The Company's proportionate interest in capital contributed by the co-venturer in the Skeetchestn/Chai-Na-Ta Xexé7ellp (Potent) Ginseng Joint Venture is shown as a Deferred Gain on the balance sheet. This amount will be realized in income as cash distributions are made from the project.

The Company's proportionate interest in capital contributed by the co-venturer in the President/Chai-Na-Ta Farms Partnership is shown as Capital Due to Co-Venturer. This amount will be reduced as capital distributions are made.

The Company conducts a significant portion of its grading and distribution activities through its joint venture in China. During 1994, the Company changed its effective interest in the joint venture operations as described in Note 19.

The following is a summary of the Company's proportionate share of the financial statements of these joint ventures.

	1996 \$	1995 \$	1994 \$
Balance Sheets			
Current assets	1,887,815	2,035,558	2,184,968
Long-term assets	1,651,815	1,032,731	176,986
Current liabilities	1,315,920	1,099,387	1,228,882
Long-term liabilities	1,930,971	1,947,500	-
Statement of Earnings			
Revenues	975,802	1,423,526	1,457,967
Expenses	2,141,385	1,498,773	1,378,388
Net earnings (loss)	(1,165,583)	(75,247)	79,579
Statement of Changes in Financial Position			
Operating activities	(1,821,785)	212,609	(170,531)
Financing activities	1,893,775	1,947,500	-
Investing activities	(200,033)	(322,035)	(8,010)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

10. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value.

On October 24, 1996, the Company consolidated its share capital at a rate of four shares for one new share. All reference to the number of shares and per share amounts that are presented in these consolidated financial statements give retroactive effect to the share consolidation.

During the years, the following changes occurred in outstanding common shares:

	Number of shares	Amount \$
Balance at November 30, 1993	13736420 = 4 x 3,434,105	12,791,773
Shares issued as a stock dividend	58,749	
Shares issued upon exercise of options	15,732	96,670
Shares issued upon exercise of warrants	91,786	1,835,720
Balance at November 30, 1994	3,600,372	14,724,163
Shares issued upon exercise of options	46,839	339,094
Balance at November 30, 1995	14588844 = 4 x 3,647,211	15,063,257
Shares issued as a stock dividend	103,280	381
Shares issued upon exercise of options	13,630	96,275
Shares issued upon conversion of debt	159,525	2,061,251
Balance at November 30, 1996	3,923,646	17,221,164

11. STOCK OPTIONS AND WARRANTS

(a) Stock options

From time to time, the Company grants incentive stock options to officers, directors and employees of the Company at market related prices.

Options to purchase 236,621 shares are outstanding at November 30, 1996 as follows:

Number of shares	Exercise price \$	Expiry date
53,401	25.69	February 12, 1998
22,141	26.39	July 5, 1998
13,025	23.74	November 15, 1998
21,001	22.55	June 16, 1999
13,025	25.43	June 16, 1999
6,406	8.59	June 23, 2000
107,622	13.27	January 16, 2001
236,621		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

11. STOCK OPTIONS AND WARRANTS (Continued)

(a) Stock options (Continued)

Information regarding the Company's stock options for each of the years is summarized as follows:

	Number of shares	Exercise price range (\$/share)
Outstanding at November 30, 1993	233,577	4.52 - 29.72
Granted	41,250	23.12 - 26.08
Exercised	(15,732)	4.44 - 14.32
Expired	(29,063)	23.12 - 29.72
Adjustment for stock dividend	4,049	
Outstanding at November 30, 1994	234,081	7.24 - 27.04
Granted	6,250	8.80
Exercised	(46,839)	7.24
Expired	(38,760)	23.12 - 26.32
Outstanding at November 30, 1995	154,732	7.24 - 27.04
Granted	114,023	13.27
Exercised	(13,630)	7.06
Expired	(21,818)	13.27 - 25.69
Adjustment for stock dividend	3,314	
Outstanding at November 30, 1996	236,621	8.59 - 26.39

(b) Warrants

- (i) The Company issued transferable "A" share purchase warrants entitling the holders to purchase 62,500 and 225,536 common shares of the Company at a price of \$20.00 per share during the years ending May 31, 1993 and May 31, 1992, respectively.

During 1994, "A" share purchase warrants were exercised resulting in the issuance of 91,786 common shares. "A" warrants entitling the holders to purchase 125,000 common shares of the Company at a price of \$20.00 per share were purchased and cancelled during the year by the Company from the holder at a price of \$2.00 per share entitlement. Also during the year ended November 30, 1994, the expiry date of the remaining "A" warrants entitling the holders to purchase 71,250 common shares was extended to April 30, 1997 and the exercise price was increased from \$20.00 to \$30.00 per share.

As at November 30, 1996, the Company had "A" warrants outstanding entitling the holders to purchase 71,250 common shares (1995 - 71,250; 1994 - 71,250).

- (ii) As at November 30, 1996, the Company had "B" share purchase warrants entitling the holders to purchase \$1,100,000 worth of common shares of the Company at \$24.00 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

11. STOCK OPTIONS AND WARRANTS (Continued)

(b) Warrants (Continued)

The "B" warrants may, alternatively, be exchanged for shares in North American Ginseng Enterprises Limited (NAGEL) in the event that NAGEL is called for trading on a recognized stock exchange or over-the-counter market. If exercised for shares in NAGEL, the effective price at which they may be exercised shall be the current public offering price for NAGEL shares, less the maximum discount permissible by the regulatory authorities of the relevant jurisdiction.

- (iii) During the period ending November 30, 1993, the Company issued "C" share purchase warrants entitling the holders to purchase 212,500 common shares of the Company at a price of \$33.88 per share until September 16, 1997 and a price of \$37.96 per share from September 17, 1997 to September 16, 1998.
- (iv) During 1995, the Company issued 4,582 "E" share purchase warrants in connection with the issue of the 1995 "Series A" secured convertible debenture (Note 8(b)) whereby each warrant entitled the holder to acquire one common share at \$11.00 USD per share until expiry on June 11, 1996. During the year these warrants expired unexercised.
- (v) During 1996, in connection with the issuance of the senior secured notes (Note 8(b)), the Company issued 302,500 "F" share purchase warrants entitling the holder to purchase 302,500 common shares of the Company at a price of \$12.80 per share until June 18, 2001. Consideration of \$825,000 was allocated to the warrants as Additional Paid-in Capital.

12. INCOME TAXES

The provision for income taxes has been calculated as follows:

	1996 \$	1995 \$	1994 \$
Income tax at the Canadian statutory tax rate of 45.34 %	4,208,311	3,736,429	2,682,684
Adjustments:			
Foreign tax rate differential	(1,280,751)	(826,269)	(923,146)
Other	132,188	189,840	(117,538)
Provision for income taxes	3,059,748	3,100,000	1,642,000
Current income taxes	106,145	23,632	85,256
Deferred income taxes	2,953,603	3,076,368	1,556,744
Provision for income taxes	3,059,748	3,100,000	1,642,000
Canada	3,129,927	3,060,086	1,531,256
Far East and Caribbean	(70,179)	39,914	110,744
Provision for income taxes	3,059,748	3,100,000	1,642,000

The Company has losses for tax purposes available to reduce future taxable income. The potential future tax benefit of these losses has been reflected in these financial statements as a reduction in deferred income tax payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

13. COMMITMENTS

- (a) The Company has entered into various operating leases ending in 2000. Total payments required under these leases are as follows:

Year ended	\$
1997	179,538
1998	237,997
1999	127,352
2000	125,609

- (b) The Company is committed to agricultural land rentals for the next five years as follows:

Year ended	\$
1997	543,172
1998	465,540
1999	251,956
2000	214,595
2001	55,928

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

14. SEGMENTED REPORTING

The Company operates in one industry segment and two geographic regions. Information by geographic region is summarized as follows:

Year ended November 30, 1996	North America \$	Far East \$	Consolidated \$
Revenues - external	2,601,333	31,828,315	34,429,647
Revenues - intercompany between regions	20,635,309		
Total revenue	23,236,642	31,828,315	
Net earnings	4,332,755	1,889,172	6,221,927
Identifiable assets	53,934,532	31,119,487	85,054,019

Year ended November 30, 1995	North America \$	Far East \$	Consolidated \$
Revenues - external	2,393,328	23,484,944	25,878,272
Revenues - intercompany between regions	12,915,048		
Total revenue	15,308,376	23,484,944	
Net earnings	3,364,255	1,776,655	5,140,910
Identifiable assets	42,907,485	27,058,407	69,965,892

Year ended November 30, 1994	North America \$	Far East \$	Consolidated \$
Revenues - external	50,922	19,034,618	19,085,540
Revenues - intercompany between regions	10,191,025		
Total revenue	10,241,947	19,034,618	
Net earnings	2,148,815	2,126,000	4,274,815
Identifiable assets	33,426,716	24,825,310	58,252,026

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

15. OTHER INFORMATION

CASH PROVIDED FROM OPERATIONS

A reconciliation of earnings from operations to cash provided from operations is as follows:

	1996 \$	1995 \$	1994 \$
Net earnings	6,221,927	5,140,910	4,274,815
Items not affecting cash			
Depreciation and amortization	514,422	239,140	239,807
Cost of ginseng crops harvested	10,412,276	6,346,221	5,488,305
Deferred income taxes	2,953,603	3,076,368	1,556,744
Non-controlling interests	201,880	169,831	153,359
Loss on equity investments	-	147,416	144,162
Sale of crops to joint venture	-	641,565	-
	20,304,108	15,761,451	11,857,192

CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	1996 \$	1995 \$	1994 \$
Accounts receivable	(14,288,580)	2,031,116	(11,488,524)
Inventory	894,068	1,313,435	(432,314)
Ginseng crops	(4,137,409)	(3,172,725)	(2,062,711)
Prepaid and other assets	(408,254)	99,587	180,211
Accounts payable and accrued liabilities	675,147	(831,053)	5,383,892
Short-term borrowings	(207,680)	2,083,622	3,141,375
	(17,472,708)	1,523,982	(5,278,071)

16. FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, accounts payable and capital lease obligations reflected in the balance sheets approximate their respective fair values.

The Company estimates the fair value of its interest bearing debentures and convertible loans at the higher of their respective liquidation values or converted values based upon the quoted market price of the Company's common shares. The Company estimates the fair value of its non-interest bearing long-term debt using discounted cash flows assuming a borrowing rate equal to the Bank of Canada rate plus 2 %.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

16. FINANCIAL INSTRUMENTS (continued)

	Carrying Amount \$	1996 Fair Value \$	Carrying Amount \$	1995 Fair Value \$
Term Debt (Note 8)				
Convertible loan	6,202,021	6,202,021	8,285,605	8,285,605
Debentures and notes payable	22,641,724	23,432,247	3,360,600	3,360,600
Land purchase loan	207,655	207,655	288,704	288,704
Capital leases	37,196	37,196	833,269	833,269
	29,088,596	29,879,119	12,768,178	12,768,178
Short-term borrowings	281,942	281,942	5,224,997	5,224,997

17. CONTINGENT LIABILITY

During 1995, the Company entered into a joint venture in which it guaranteed the capital invested by the co-venturer in the event that the joint venture does not have sufficient resources to make the return of capital. The co-venturer contributed \$5,625,000 of capital of which \$1,250,000 has been returned to date.

18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) which differ in some respects from U.S. GAAP. The significant differences between Canadian and U.S. GAAP which affect the Company's financial statements are summarized below:

- (a) Accounting for capitalization of interest
Under U.S. GAAP, the portion of interest relating to expenditures on ginseng crop costs will not be eligible for capitalization to ginseng crop costs. The amount would be expensed in the current year.
- (b) Accounting for stock-dividends
Under U.S. GAAP, the issuance of a stock dividend should be accounted for as a dividend requiring capitalization of retained earnings for the fair value of additional shares issued. The capitalization is effected by charging retained earnings and crediting contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(c) Accounting for joint ventures

U.S. GAAP requires investments in joint ventures to be accounted for under the equity method, while under Canadian GAAP, the accounts of joint ventures are proportionately consolidated. However, under rules promulgated by the Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information, continue to follow proportionate consolidation for purposes of registration and other filings, notwithstanding the departure from U.S. GAAP. Consequently, the balance sheets have not been adjusted to restate the accounting under U.S. GAAP and additional information concerning the Registrant's interests in joint ventures is presented in Note 9.

(d) Statement of Changes In Financial Position

Under U.S. GAAP, changes in lines of credit and short-term borrowings are considered financing activities in the statement of changes in financial position.

Under US GAAP the conversion of debt described in Note 8(a) and the acquisition of investment described in Note 2(a) would be classified as non-cash transactions and not included in the statement of changes in financial position and would be reported supplementally.

(e) Disclosure of cumulative translation adjustment

Under U.S. GAAP, a schedule of changes in cumulative translation adjustment is required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

The differences between Canadian and U.S. GAAP and their effect on the Company's consolidated financial statements are summarized below:

		1996 \$	1995 \$	1994 \$
Net earnings as reported under Canadian GAAP		6,221,927	5,140,910	4,274,815
Adjustment to reflect difference in accounting for interest	(a)	(303,753)	(272,246)	48,298
Net earnings under U.S. GAAP		5,918,174	4,868,664	4,323,113
Primary earnings per share		1.34	1.09	1.02
Fully diluted earnings per share		1.34	1.09	1.02
Weighted average number of shares		3,924,116	4,123,285	3,940,028
Cash flow from operating activities under Canadian GAAP		(3,014,648)	10,693,472	(639,929)
Short-term borrowings	(d)	4,943,055	(2,083,622)	(3,141,375)
U.S. GAAP		1,928,407	8,609,850	(3,781,304)
Cash flow from financing activities under Canadian GAAP		17,732,342	5,387,532	208,865
Short-term borrowings	(d)	(4,943,055)	2,083,622	3,141,375
Line of credit	(d)	(5,655,000)	(3,751,752)	2,456,752
Repayment of term debt	(d)	2,061,250	-	-
Issuance of share capital	(d)	(2,061,250)	-	-
U.S. GAAP		7,134,287	3,719,402	5,806,992
Cash flow from investing activities under Canadian GAAP		(2,473,542)	(10,883,531)	(9,580,942)
Advances to Unique Formulations, Inc.		339,000	-	-
Acquisition of Unique Formulations, Inc.		(339,000)	-	-
U.S. GAAP		(2,473,542)	(10,883,531)	(9,580,942)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

	1996 \$	1995 \$
ASSETS		
Current assets - ginseng crops		
Canadian GAAP	7,861,831	8,234,504
Interest capitalized (a)	(612,642)	(594,793)
U.S. GAAP	7,249,189	7,639,711
Ginseng crops		
Canadian GAAP	17,593,012	15,994,752
Interest capitalized (a)	(1,295,671)	(757,807)
U.S. GAAP	16,297,341	15,236,945
SHAREHOLDERS' EQUITY		
Contributed surplus		
Canadian GAAP		
Stock dividend (b)	7,512,815	6,368,999
U.S. GAAP	7,512,815	6,368,999
Retained earnings		
Canadian GAAP	20,549,006	14,327,079
Interest capitalized (a)	(1,908,313)	(1,352,600)
Stock dividend (b)	(7,512,815)	(6,368,999)
U.S. GAAP	11,127,878	6,605,480
Cumulative translation adjustment disclosure under U.S. GAAP		
Balance, beginning of year	(20,366)	105,641
Changes during the year	(268,238)	(126,007)
Balance, end of year	(288,604)	(20,366)

Ans is the only s/h E diff

1,908,313 = 1,295,671 + 612,642

*CAN BV = 38,306,566
 < 1,908,313
 36,398,253*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHAI-NA-TA CORP.

(Stated in Canadian Dollars)

19. SALE OF INTEREST IN CHAI-NA-TA (ASIA) LTD.

During 1994, the Company sold a 9.6% interest in Chai-Na-Ta (Asia) Ltd., formerly a wholly-owned subsidiary, to Tung Fong Hung Medicine Company, Limited in exchange for a 50% interest in North American Ginseng Enterprises Limited (formerly a joint venture) and its 51% owned joint venture, Wuxi Zhong Jia American Ginseng Natural Tonics Co. Ltd.. This transaction increased the Company's ownership in its distribution and processing facilities in Hong Kong and Wuxi, China resulting in a net increase in tangible assets of \$639,407 which was recorded as a gain.

20. PRIOR YEARS' AMOUNTS

Certain of the prior years' amounts have been reclassified to conform to the current year's presentation.

CORPORATE DATA

DIRECTORS

James B. Abernethy
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Senator Jack Austin
Vancouver, British Columbia

Ken D. Bradley*
Vancouver, British Columbia

Murray G. Brandow*
Vancouver, British Columbia

Earl G. Drake
Vancouver, British Columbia

Oksana Exell
Vancouver, British Columbia

Gerry A. Gill
Vancouver, British Columbia

Carl J. Pines*
Vancouver, British Columbia

Larry A. Story
Vancouver, British Columbia

* Audit Committee Member

OFFICERS

James B. Abernethy
Chairman

Gerry A. Gill
President & C.E.O.

Joseph S. Crowder
Vice President of Corporate
Development & Human Resources

Bevan D. Jones
Vice President of Farm Operations

Robert A. Miller
Vice President of Finance &
Administration and Treasurer

Pamela L. Jensen
Corporate Secretary

STOCK LISTING

The Toronto Stock Exchange
The NASDAQ Stock Market

TRADING SYMBOLS

"CC" - TSE
"CCCFF" - NASDAQ

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ANNUAL GENERAL MEETING

Thursday, May 15, 1997 at 2:00 pm

The Vancouver Golf Club
771 Austin Avenue
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